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REPORT OF THE SEMINAR ON THE ROLE OF COMMERCIAL BANKS IN THE CLEARING AND PAYMENTS ARRANGEMENTS HELD IN FREETOWN (SIERRA LEONE) 25-29 JUNE 1979.

In its efforts to promote monetary and financial co-operation among African countries with a view to expanding Intra-African trade, the AACB at its 5th ordinary meeting held in Lusaka, Zambia in August 1977 decided to organize a Seminar on the role of Commercial Banks in clearing and payments arrangements. The West African subregion was chosen to host the seminar in view of the existence there of the West African Clearing House which has been organizing regular meetings of commercial banks in that subregion.

Opening ceremony

The Seminar was opened by the Sierra Leonean Minister of Finance Honourable F.M. Minah who, in his opening speech said inter-alia, that there was need for Africa to expand intra-African trade vis-à-vis trade with overseas countries. He pointed out that it was now time for Africa to look for potential markets within the continent itself, as it was now becoming painfully apparent that markets in advanced countries were becoming increasingly limited through tariff and non-tariff barriers which were being imposed against goods from developing countries. He therefore urged commercial banks in Africa to co-operate fully with each other in fostering intra-African trade.

Earlier on, the Governor of the Bank of Sierra Leone, Mr. Bangura welcomed the delegates to the Seminar, by briefly recounting the long history of active and fruitful co-operation between Central Banks in the region. He expressed the hope that the joint participation of Commercial Banks will greatly enhance the search for the most appropriate mechanism that will expand trade, ensure growth and promote stability. But the Governor stressed that an appropriate path for such an objective must be charted out in a manner that does not impose too great a strain on the machinery of the institutions involved.

The third speaker in the opening ceremony was Mr. C. Kaboré, the Deputy Governor of the BCEAO in his capacity as Chairman of the West African Subregional Committee of the Association of African Central Banks (AACB). In his speech, he outlined the objectives of the Clearing House and its positive impact on the savings in foreign exchange of their member States. Mr. Kaboré pointed out that these results had been possible as a result of the co-operation and participation of commercial banks in the subregion. Mr. Kaboré finally thanked the Economic Commission for Africa which he said had never spared any effort in fostering the economic, monetary and financial integration of our continent. He also expressed the wish that the meeting will be followed by others and that the commercial banks would develop their reciprocal lines of contact.

In winding up the opening ceremony the Executive Secretary of the West African Clearing House, Mr. Windapo thanked the Minister and all the other representatives.

The following Agenda was adopted:

1. Opening Ceremony

   (a) Introductory remarks - Governor Bank of Sierra Leone
   (b) Speech - Deputy Governor, Mr. Kaboré
   (c) Speech - The Honourable F.M. Minah, Minister of Finance
   (d) Vote of thanks - Executive Secretary - WACH

2. Experience of West African Clearing House - WACH

3. Role of Commercial Banks in clearing and payments arrangements in the Eastern and Southern African Countries - The Reserve Bank of Malawi.

4. Commercial Transactions with African countries - The Moroccan Export.

5. The Role of Commercial Banks in the promotion of Intra-African Trade - ECA.

6. Exchange control and its impact on the expansion of Intra-African trade - ECA.

7. Central Bank control on Commercial Banks and promotion of Intra-African trade - Central Bank of Kenya.

8. Adoption of the Report.

The BCEAO in its capacity as Chairman of the West African Subregion of the Association of African Central Banks was chosen to chair the Seminar. The African Centre for Monetary Studies as the next secretariat of the Association of the African Central Banks was appointed to serve as Rapporteur to the Seminar. Representing the BCEAO and the African Centre for Monetary Studies in these roles throughout the seminar were Mr. Patrice Kouame, the BCEAO's Director of Financial Operations, and Dr. G.K. Simwinga, Director of Training, respectively. The Chairman Mr. Patrice Kouame of BCEAO, briefly commented on the role of Commercial Banks with regard to Intra-African Trade. He pointed out that current statistics revealed a very low level of trade among African countries, vis-à-vis that with industrialized countries. In this regard, it was imperative to examine the role of Commercial Banks in enhancing Intra-African Trade rather critically and he hoped that the seminar will successfully undertake the task.

I. THE EXPERIENCE OF THE WEST AFRICAN CLEARING HOUSE (WACH)

The first seminar paper was presented by Mr. Windapo, the Executive Secretary of WACH.

Mr. Windapo gave a summary of the History of WACH, and the operational mechanisms involved in clearing transactions among member countries, before he outlined the principal objectives of the West African Clearing House. These were:

(a) to promote the use of members' currencies for subregional trade and other transactions;

(b) to bring about economies in the use of foreign reserves of the members of the Clearing House;

(c) to encourage the members of the Clearing House to liberalize trade among their respective countries;

(d) to promote monetary co-operation and consultations between members of the Clearing House.

He outlined the following as the major accomplishments of the West African Clearing House during its three years of existence:

From its commencement in July 1976, to the end of May 1979, a total of 145 million West African Units of Account (1 WAUA = 1 SDR) have been channelled through the Clearing mechanism. Of this, 51 million was cleared during the first financial year which covered a period of fourteen months, 44 million for the second year (1977/78) and 50 million for the first 9 months of the financial year 1978/79. The fact that the transactions involved use local rather than foreign convertible currencies meant a significant savings in foreign exchange by member countries in financing

trade within the region[1/]. Secondly, the Central Banks intend to liberalize and increase trade within the subregion, as a result of the successes of the Clearing House. Furthermore, the Clearing House hopes to provide a forum and conditions which are conducive to enhancing effective monetary co-operation and consultations among Central Banks and related organizations within the subregion, for the exchange of ideas and experiences. The operations of the Clearing House have not been without difficulties. Principal among these are: communication problems, the problem of "hesitant" participation by Commercial Banks within the region, and inadequate understanding of the clearing procedures by employees in member institutions. The latter has been partly responsible for delays in effecting transactions.

After a lengthy debate, some points emerged as main recommendations regarding the method of operation and the problems encountered by the Clearing House. These were:

1. Communication

Need to improve physical infrastructure within the region by governments so as to facilitate trade transactions between member States.

2. Information

That positive measures need to be taken by Central Banks in conjunction with Chambers of Commerce, Ministries in charge of trade, trade promotion centres and commercial banks to provide more relevant trade information on the domestic and regional market potential, and not just the markets of industrialized countries. Information exchanges between countries within the region through symposia, publications, and other contacts also need to be encouraged.

3. Commercial Banks

That the Commercial Banks should be encouraged to participate in the clearing exercise. However, in doing so, it has to be borne in mind that Commercial Banks are essentially profit seeking enterprises and as such efforts ought to be made to ensure that their participation is not detrimental to their primary objectives.

4. Exchange rate harmonization

The Seminar participants noted also that more consultations will be required among the monetary authorities to harmonize exchange rates and operating rules within the region, in order to avoid the development and use of parallel markets.

5. Reciprocity of trade within the region

Because of the trade imbalance in some cases among member States as is revealed in statistics, it was strongly recommended that the situation need to be rectified by encouraging member countries to trade with each other more.

1/ Over $\frac{2}{3}$ of this was paid in hard currencies.

II. The role of Commercial Banks in clearing and payments arrangements in the Eastern and Southern African countries

This was the second paper and was presented by the Reserve Bank of Malawi. It was emphasized from the start that unlike the case of the West African Clearing House which had been in existence for three years now, a payment arrangement involving Commercial Banks in the Eastern and Southern African subregion is just a proposal. Ideally, a clearing and payments arrangement for the subregion should involve Commercial Banks opening reciprocal accounts with one another in participating countries. Transactions will involve these banks crediting and debiting one another in local currencies, at the end of each month. After the books have been balanced, payment by net debtor Commercial Banks should be effected through Central Banks using convertible currencies to the net creditor country. In order for this arrangement to succeed it might be necessary for participating Commercial Banks to offer over-draft facilities to each other, in order to accommodate the needs of those that find themselves in a net debtor position. The interest rates that need to be charged are those that are normally charged on such facilities while pre-arranged penalty rates of interest could be instituted, if and when overdraft limits were exceeded. Risks arising from exchange rate fluctuations could be minimized either by maintaining the reciprocal accounts in a stable unit such as the SDR or to peg the currencies of the trading partner to one stable unit of account.

For the arrangement of succeed it would also be necessary for the Central Banks to guarantee receipt of funds by net credit Commercial Banks from net debtor Commercial Banks. In order for Central Banks to assess accurately transactional developments, Commercial Banks should be required to report periodically, gross debit and gross credit entries in their reciprocal accounts. Advantages of this proposed clearing arrangement include:

1. Less use of third party (usually hard or convertible) currencies and a resort to use of local currencies.

2. By avoiding the present practice of transferring funds through Europe, the cost (cable and commissions) may be significantly reduced.

3. By avoiding use of a third currency, unpredictable variations in the cost to the importer would be reduced.

4. It would foster trade among countries within the region. The introduction of such a new institution would require a concerte campaign on the part of the banks to educate importers and exporters about the potential benefits.

A lot of questions were asked and observations made. Some points however emerged as recommendations regarding the formation of a clearing and payments arrangement involving Commercial Banks in the Eastern and Southern African subregion of the Association of African Central Banks.

1. Seminar participants noted with pleasure the decision of the Governors of the subregion to establish a bilateral payments arrangement.

2. Attention was drawn to the East African representatives on the communication problems which have been experienced in West Africa.

3. In order to ensure full and voluntary participation in the clearing arrangement by Commercial Banks, it would be necessary for the Central Banks to guarantee transactions of the participating Commercial Banks, particularly that they would now be required to open corresponding accounts with Banks that they traditionally never delt with.

III. COMMERCIAL TRANSACTIONS WITH AFRICAN COUNTRIES: THE MOROCCO EXPERIENCE

A review of the Morocco experience in the clearing arrangement was given and the successes and difficulties experienced prior to the establishment of the present arrangement. Currently, Morocco maintains bilateral clearing arrangements with Mauritania and Tunisia, but the arrangement leaves the Commercial Banks susceptible to high risks. The role of the Central Bank of Morocco was given as comprising:

(a) the financing of export and import transactions;

(b) providing detailed information to the business community on domestic and foreign markets and;

(c) the provision of insurance coverage to Moroccan expoeters.

1. Summary of the Moroccan experience

The establishment of a system of settlement within the clearing mechanism

Under this arrangement, Central Banks make bilateral payments arrangements which avert the immediate release of foreign exchange for imported goods. Each Central Bank regulates the movement of trade through the mutually accepted currency of account and a pre-determined rate. Apart from delaying the release of foreign exchange, this system allows for substantial savings in foreign exchange.

2. Settlement of trade transactions in the currencies of the two countries concerned

The participating Central Banks open corresponding accounts with each other out of which they settle all trade transactions with each other. The main advantages of this clearing arrangement include:

(i) The imports and exports are denominated in national currencies and thereby provide savings in foreign exchange for the exports;

(ii) The countries concerned would avoid using the hard currencies for the greater part of the Intra-African trade.

In view of the Moroccan experience, the participants made the following recommendations:

1. The establishment of an African Bank for foreign trade

This should take over the financing of the Inter-African trade. It would also be used to study economic and financial problems related to promoting Inter-African Trade. The present practice of having trade between African countries going through non-African Banks as intermediaries has given rise to little direct contacts between African countries and also limited their capacity to grant lines of credit to each other on a mutual basis.

The advantage of this proposal is that it would provide to Commercial Banks in each country, economic and financial information, as well as its financial position.

In this way, it will not be necessary for Commercial Banks in Africa to refer to foreign banks before they can undertake their import, export transactions. This bank could be used to guarantee lines of credit for longer periods between African countries.

2. Setting up an African Association of Chamber of Commerce

Among the objectives of the African Association of Chamber of Commerce would be to facilitate contacts between Commercial Banks in Africa and other Commercial Enterprises. It is anticipated that these contacts would enable them to harmonize working relationships.

IV. THE ROLE OF COMMERCIAL BANKS IN THE PROMOTION OF INTRA-AFRICAN TRADE

The Seminar participants also noted that the volume of Inter-African trade is very low in relation to that with the rest of the world. This is manifested in the declining volume of trade among African countries which stood at only 4 per cent compared to Africa's trade transactions with the rest of the world. This is aggravated by the fact that trade

constitutes a significant portion of these countries' Gross domestic product. Thus any changes in trade constitute an appreciable impact on their economies.

So far, African countries have been pursuing three major strategies to ameliorate the situation. These are: attempts to gain access to World markets, stabilize commodity prices and export and market diversification. However, attempts to gain access to world market, and to stabilize commodity prices have yielded poor results to the African countries. The only alternative that holds hope is the expansion of Intra-African trade. Specifically, the move requires the re-orientation of the traditional vertical pattern of trade with the colonial countries towards a more horizontal trade with the African countries. In this regard specific recommendations were put forward including:

1. Liberalization of trade in traditional products among African countries which would involve a re-orientation from the traditional north-south pattern of trade (vertical) to a new horizontal pattern entailing closer and more intensified trade among African countries.

2. That Commercial Banks should establish external trade units which would not just give information on foreign industrialized markets, but would also provide information to its customers on the African markets and trade. Such information could be provided to both importers and exporters.

3. Commercial Banks should be encouraged to become full partners in clearing arrangements involving trade between African countries. However, since Commercial Banks are basically profit oriented, collective efforts must be made by appropriate authorities to ensure the security of the participation of commercial banks in the payment and clearing arrangement.

4. In view of the importance of export finance to the expansion of intra-African trade the best arrangement would be to establish an Export Guarantee Scheme in the region.

5. Information in full should be provided to both importers and exporters in Africa about the market potentialities and the security of business transactions within Africa and financial assistance to such organizations could be co-ordinated by joint committees between the Commercial Banks and relevant trade institutions.

V. CENTRAL BANK CONTROL ON COMMERCIAL BANKS AND PROMOTION OF INTRA-AFRICAN TRADE

The obstacles to intra-African trade in so far as the relationship between the Central Banks and Commercial Banks are concerned were identified as:

1. The difficulty of providing export credits to exporters by financial institutions.

2. Lack of export and import insurance facilities.

3. Poor physical infrastructure to facilitate trade flows between countries and poor communication systems.

4. Foreign exchange restrictions.

5. Poor credit facilities and lack of information of African markets.

6. Liquidity restrictions and;

7. Restrictive export and import regulations.

It was however, recommended that commercial banks could play a significant role in enhancing Intra-African trade through:

(a) Simplifying procedures and liberalizing collateral requirements;

(b) Establishing export promotion departments which would disseminate trade information and export opportunities in other African countries;

(c) Maintaining 'Nostro-Vostro' accounts with each other in trading countries. Similarly Central Banks too, should maintain accounts with each other out of which they could settle deals that are beyond the scope of Commercial Banks;

(d) Harmonization of trade rules among African trading partners which would serve as a code of conduct in the same way GATT rules do. Similarly, Commercial Banks should attempt to harmonize financing rules in order to promote Intra-African trade.

VI. EXCHANGE CONTROL AND ITS IMPACT ON THE EXPANSION OF INTRA-AFRICAN TRADE: THE WEST AFRICAN EXPERIENCE

The impact of exchange control on restricting trade in the West subregion was seen as inhibitive. This is manifested in restrictive practices among member banks. It was noted however that there is a wide divergence in the application of exchange restrictions among member countries within the subregion ranging from very rigid controls in some countries to very liberal practices in others.

Substantively variations in controls are manifested in such practices as:

(i) The durations of collections; i.e. the periods when proceeds from traded goods have to be collected tend to vary a great deal, among members within the region;

(ii) Unrecorded trade: the severe exchange restrictions in African countries have tended to encourage trade through unofficial channels;

(iii) That there exists no proper procedure to encourage trade within the subregion and the region as a whole.

In view of these problems, seminar participants made several short and long-run recommendations for consideration by all potential trading partners within the region. These included:

1. That efforts ought to be made within the subregion to have goods exported and imported only under Open Central licence.

2. That allowances for travellers within fixed a priori and be made available to the travellers.

3. Freedom to remit incomes earned by nationals of the region from states within the region to their countries of origin.

4. Larger credit tranches with longer periods of settlement within the region should be allowed.

5. There should be reciprocal balance-of-payments support within the region.

6. Correspondent accounts should be established in all Commercial Banks within the region to make possible increased trade among African countries.

7. Publication of a year book of Commercial Banks consisting of all financial and monetary institutions in Africa and their addresses. This should be made available to all trading interested parties.

VII. OVER-ALL RECOMMENDATIONS

While taking full cognissance of the specific recommendations pertaining to each and every issue raised during the conference, the following over-all recommendations emerged concerning the role of commercial banks in promoting intra-African trade:

1. That Commercial Banks in Africa including other Commercial enterprises should fully and actively participate in the promotion of intra-African trade by establishing correspondent relationships with their counterparts in all other African countries and the creation of trade information units geared to intra-African trade promotion.

2. In order for Commercial Banks to fully and effectively participate in the promotion of Intra-African trade, there is a need to devise a mechanism which will protect their legitimate financial interests in all operations.

3. That the positive role of commercial banks in enhancing Intra-African trade should be supplemented by the creation of other auxiliary institutions such as: The African Association of Commercial Banks and the African Association of Chambers of Commerce.

4. Governments and Central Banks must give substantial financial support and provide insurance coverage to all commercial banks that actively participate in the promotion of intra-African trade.

5. That Governments must endeavour in promoting intra-African trade through creating and encouraging trade centres, assisting all bodies whose objectives involves promotion of African trade.

6. Improvement of physical infrastructure and communication systems in Africa.

7. The African Centre for Monetary Studies should be requested to produce a complete publication of exchange control regulations throughout Africa and make it available to all trading institutions, organizations and interested parties.

8. The formation of credit guarantee schemes in Africa.

9. Establishment of an African bank for intra-African trade.